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**Argentina**

**Sugar**

**Annual**

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**Report Highlights:**

**Argentine sugar production for MY2003 is projected at 1.55 million metric tons, slightly lower than the previous year. Returns in MY2002 were in many cases negative, affecting the investment in plantations. With the strong currency devaluation in the first three months of CY2002, Argentina has improved its competitiveness, but a reduced output in the coming crop will limit export expansion.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## SECTION I. SITUATION AND OUTLOOK

As result of the strong devaluation of the peso in the first two months of 2002, sugar exports are no longer unprofitable as they were during the convertibility program in which some exports were made at a loss in order to keep a reasonable supply and demand balance in the domestic market. At the current exchange rate, Argentina could export sugar at the world price and receive a similar price to what mills are selling in the domestic market. However, the crop for 2003 is projected to remain at a relatively small volume, limiting an expansion of exports. Total exports for 2003 are projected at 130,000 MT, slightly lower than the previous year. The main markets will be the United States for raw sugar under the tariff rate quota and Chile, for refined sugar. Some refined sugar will also go to other markets. As result of the devaluation, exports to the US have become extremely attractive due to its high price in dollar terms. Mills which are eligible for export and have a part of the quota will benefit greatly as prices are double those paid in the domestic market. Chile has been an excellent market in past years, but exports of refined sugar during 2003 could suffer from competition of Argentine high fructose corn syrup (HFCS) which has similar prices to sugar but its raw material is cheaper and the duty is significantly lower than sugar.

Sugar production for 2003 is forecast at 1.55 million MT (raw value basis), slightly lower than in 2002. The harvest during MY2002 was very complicated because of an early frost and lots of rain. In Tucuman, most producers did not make money last year (average cost of production at \$13.50 per MT of cane and income was \$12.0 per MT) due to low sugar prices and yields. This situation affected negatively the crop as the cane was not managed as needed and cane renovation was lower than required. However, good weather during the summer, with good rains and temperature, will offset somewhat the scarce investment in the fields. Planted area is slowly decreasing in Tucuman, while it has been growing in the provinces of Salta and Jujuy (S&J). The two areas are very different. Tucuman is the largest producing province, with 15 mills, many in financial difficulties, and numerous independent cane producers which deliver to the mills under a payment in kind scheme. Weather is very hot and humid, with no need of irrigation. Salta and Jujuy have 5 mills and almost all cane produced is owned by them. The climate is hot but 100 percent irrigation is needed, resulting in higher costs but a more stable output. In this area are two of the three largest mills, Ledesma and Tabacal, which, through marketing agreements with other mills, commercialize between 60 and 70 percent of the sugar which goes into the domestic market. The following tables show how the two areas have developed in the past five years (in MT):

MY	Area	Hectares	%	Production	%	Cane Yields
1998	Tucuman	202,000	76	1,118,000	64	51.5 Mt/Hec
1998	Salta & Jujuy	65,000	24	623,000	35	79.5 Mt/Hec

MY	Area	Hectares	%	Production	%	Cane Yields
2002	Tucuman	183,000	72	918,000	57	52.4 Mt/Hec
2002	Salta & Jujuy	69,500	28	668,000	42	86.1 Mt/Hec

In the past four years, Tucuman's area has dropped 9 percent and production 18 percent, while cane yields increased 2 percent. In the provinces of Salta and Jujuy, planted area, yields and production expanded 7 percent. Small cane producers in Tucuman continue to suffer poor returns as sugar prices during harvest drop significantly due to scarce financial support. Therefore, the lack of investment is hurting efficiency and thus profitability. As long as this continues, we will probably see inefficient producers going out of business, and larger and more efficient producers getting bigger.

With the strong devaluation of the Argentine peso, which went from 1:1 against the dollar to 3:1 by March 2002, most farmers are happy because their production is primarily tied to the dollar as they are commodities which can be exported. However, many things have changed and continue to do so almost on a daily basis. Now there are export taxes of 5 percent, export rebates were cut in half, there is virtually no financial system to provide support to producers, many products are dollarized because they are imported, especially most inputs (seeds, fertilizers, ag chemicals, some machinery and equipment), etc. Under such unstable environment and uncertainty, it is currently difficult to establish the amount of benefit from the devaluation for farmers. In the case of sugar, most of the changes mentioned apply, but the main and most important factor is that Brazilian sugar is no longer a threat and therefore, domestic sugar prices can move up to a higher ceiling without running the risk of having large imports at low prices. As an example of this, sugar prices (in peso terms) in April 2002 show an increase of over 60 percent since December 2001, prior to the devaluation. Most sources believe that the sector will operate in a much better situation, as production costs have not increased in the same relation as the price of sugar and furthermore, exports to the US under the TRQ have become extremely profitable. Sugar prices could be even higher today, but the sector is quite cautious and does not want to offend the government which is going through tough times and is desperately trying to control inflation. Since the devaluation, most foods have increased 40-50 percent in price. The current retail price for sugar ranges between 0.70/0.75 pesos per kilo (includes 21 percent VAT).

One extremely important factor which remains as a great doubt is how the upcoming crop, which will begin in late May, early June, will be financed. This is a key factor because without financing, the marketing during harvest will be very uneven, with most weaker mills and farmers selling all at the same time and putting strong downward pressure on prices. The only ones which will benefit are those who have a stronger financial position and can retain the sugar until after the harvest at the end of the year. Until last year, the market had two main sources to put sugar away during the harvest in order to hold prices up. One were warrants, which in MY2002 totaled about 300,000 MT. Although an expensive tool, it worked quite well. The other were the purchases (70/80,000 MT of sugar) of the two largest mills in Salta and Jujuy to mills in Tucuman during the beginning and middle of the harvest. In both cases, the parties which financed and/or purchased the sugar during MY2002 paid the full cost of holding up prices for the entire sector. Warrants were denominated in dollars and the two mills used dollars to buy a product which eight months later was selling for 30 percent less. With the country's financial system practically collapsed and the strong uncertainty and lack of confidence, it is doubtful the sector will have access to much financing. The President of Argentina announced a few weeks ago in Tucuman that it would lend \$40 million to help solve this problem, but most sources believe it will be difficult for it to happen. Therefore, this coming crop, which is expected to begin with a price of roughly 450/500 pesos per MT, currently equivalent to US\$160, will broaden the gap of benefits between those which have a stronger financial

position from those which are weaker.

There is no policy directed specifically to the sugar sector. After ten years of the convertibility program, which pegged the peso to the dollar, the government in January 2002 decided to get rid of it and devalue. The main purpose was to improve the competitiveness of domestic products. In a way this has occurred, but at a very high cost in the form of financial and economic disruptions. Nonetheless, we do not foresee the country increasing its sugar production to export to new markets. Most sources agree that in the short to medium term Argentina will continue to produce what its domestic market needs, supply the US sugar quota and Chile's needs. In MY2003, a larger sugar demand is expected for products containing sugar for the export market. However, a lower demand for products consumed domestically is expected due to the strong recession and high unemployment. Sugar per capita consumption in Argentina is estimated at 39 kilos of which roughly half is used as household and the balance by the food and beverage industry.

The local sugar sector has been very active in combating the entry of sugar from Brazil, its partner in the Mercosur region. They accuse their neighbors of indirectly subsidizing sugar production under the huge gasohol program and do not want inexpensive Brazilian sugar to compete in the market. In the past several years, domestic sugar prices have been kept low primarily because of the threat of Brazilian imports. As result of this, Argentina has a special law by which imported sugar has to pay a variable duty plus a 20 percent import duty. Today the duty of protection is roughly US\$60 per MT, which if added to a current CIF price and the 20 percent duty totals roughly US\$400 per MT. Current wholesale domestic price at mill is about US\$160 per MT. Some people in the sector are afraid that the president of Argentina will reduce sugar duties in exchange for access to the Brazilian market in other areas. Export rebates for sugar were reduced by half to 4.05 percent and a 5 percent export tax was put in place.

HFCS consumption in Argentina is quite stable as it has had to compete with low sugar prices in the past several years. Consumption in sugar equivalent is about 350,000 MT (70,000 of fructose 42% and 280,000 of fructose 55%), mostly used by beverage manufacturers.

Sugar ending stocks for MY2003 are expected to drop as a result of lower production. The expected volume is roughly one month's use, which should not put too much pressure on the following crop.

**SECTION II. STATISTICAL TABLES**

PSD Table						
Country	Argentina					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		06/2000		06/2001		06/2002
Beginning Stocks	263	263	155	146	135	162
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	1540	1540	1540	1600	0	1550
TOTAL Sugar Production	1540	1540	1540	1600	0	1550
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	2	2	10	1	0	1
TOTAL Imports	2	2	10	1	0	1
TOTAL SUPPLY	1805	1805	1705	1747	135	1713
Raw Exports	80	84	50	65	0	45
Refined Exp.(Raw Val)	100	105	50	70	0	85
TOTAL EXPORTS	180	189	100	135	0	130
Human Dom. Consumption	1460	1460	1460	1440	0	1440
Feed Dom. Consumption	10	10	10	10	0	10
TOTAL Dom. Consumption	1470	1470	1470	1450	0	1450
Ending Stocks	155	146	135	162	0	133
TOTAL DISTRIBUTION	1805	1805	1705	1747	0	1713

PSD Table						
Country	Argentina					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		06/2000		06/2001		06/2002
Area Planted	275	275	270	270	0	265
Area Harvested	265	265	260	260	0	255
Production	14900	14900	14900	15150	0	14100
TOTAL SUPPLY	14900	14900	14900	15150	0	14100
Utilization for Sugar	14900	14900	14900	15150	0	14100
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	14900	14900	14900	15150	0	14100

Export Trade Matrix			
Country	Argentina		
Commodity	Centrifugal Sugar		
Time period	CY	Units:	MT
Exports for:	2001		2002
U.S.	59536	U.S.	
Others		Others	
Chile	51596		
Colombia	2940		
Netherlands	1381		
Germany	1113		
Italy	1176		
Paraguay	777		
UK	206		
Canada	136		
France	116		
Uruguay	93		
Total for Others	59534		0
Others not Listed	185		
Grand Total	119255		0

Import Trade Matrix			
Country	Argentina		
Commodity	Centrifugal Sugar		
Time period	CY	Units:	MT
Imports for:	2001		2002
U.S.	6	U.S.	
Others		Others	
Brazil	1250		
Taiwan	1		
Germany	1		
Total for Others	1252		0
Others not Listed	0		
Grand Total	1258		0



Prices Table			
Country	Argentina		
Commodity	Centrifugal Sugar		
Prices in	Pesos	per uom	MT (Ex-Plant)
Year	2001	2002	% Change
Jan	301	356	18.27%
Feb	324	382	17.90%
Mar	330	420	27.27%
Apr	315	470	49.21%
May	316		-100.00%
Jun	314		-100.00%
Jul	294		-100.00%
Aug	254		-100.00%
Sep	272		-100.00%
Oct	276		-100.00%
Nov	285		-100.00%
Dec	290		-100.00%
Exchange Rate	3/1	Local currency/US \$	

